NOTES

WASHINGTON NOTES

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One of the most significant economic questions brought forward for a good while for governmental disposition is that of railroad investment now being forced upon the Interstate Commerce Commission. As is well known, the Commission has for two years past followed quite consistently a policy of keeping railroad rates to a minimum and refusing any advances. A recent examination of the complete docket of the Commission since the end of 1910 shows that of 167 cases presented to it in which there was request for an advance in rates, only 19 have been approved. During the present autumn the effects of this policy have been made strikingly manifest in the current car shortage. Early in the summer, government reports called attention to the fact that there was to be an enormous yield in nearly all crops. This led railroad managers to a keen realization of the demands that would probably be brought to bear upon them during the autumn. The result was an earnest effort to secure the co-operation of shippers, boards of trade, and other commercial organizations in economizing cars. Two distinct lines of work were determined upon: (1) the roads early repaired and put into commission all the cars that could possibly be rendered available; (2) shippers were urged to send all possible freight early in the season, thereby relieving congestion when crops began to move, and to hold cars as short a time as possible at destinations, thereby releasing them at the earliest practicable moment for other uses. Both these plans have been prosecuted as far as circumstances would permit, and both have met with very considerable success. Coupled with the fact that not a few roads added materially to their equipment during the summer by the purchase of new cars, these efforts at relief yielded satisfactory returns. Yet it has remained true that as the autumn has progressed the roads have been painfully short of equipment. When pressed for an explana-

tion by members or attachés of the Commission, they have made answer that the present scale of rates does not enable them to enlarge their facilities for transportation as they would otherwise like to do, but compels them to keep their extensions down to extremely moderate figures. Another very effective commentary upon the Commission's policy is afforded by the fact that several serious railway accidents obviously attributable to lack of safety appliances have recently occurred. In these, it has uniformly been testified that the failure to introduce the use of safety appliances more generally was due to relative lack of railroad revenues consequent upon a condition of largely increased expenses of operation while incomes remained stationary. Coincident with these developments has occurred a change in the loan market which will obviously necessitate the refunding of issues of bonds now falling due, at considerably higher rates of interest. This is particularly true of the older issues of securities which were floated some years ago at unusually low rates of interest. It is therefore evident that a higher charge for the use of capital will have to be paid by those who wish to continue the employment of even the borrowed funds at present invested in transportation. Advances in wages have been made by nearly all railways during the past few years. Taken in the aggregate, these constitute an enormous addition to operating costs. The movement for the securing of higher wages still continues and will undoubtedly result in materially higher wages bills, as, for example, in the case of those resulting from the current arbitration proceedings designed to settle the controversies between the engineers and the railways, an announcement concerning which is shortly to be made. All told, the roads are faced with great increases in every kind of expenses—wages, supplies, capital payments, and others—while revenues have been little more than stable. This is the position that is being brought to the attention of the Interstate Commerce Commission by all classes of business men who are in any way affected by the prosperity or misfortune of the railway industry. The larger aspect of the case from the Commission's own standpoint is seen in the fact that the mileage of the roads and their general ability to accommodate the public have not increased since the period of limitation of rates in anything like the proportion that was previously characteristic. The Commission is therefore called upon to decide whether it will adopt a different policy with respect to rate advances. Undoubtedly an increase in the rate charges is not desirable except for some very good and sufficient reason, but the fact remains that the question of a general rate advance is essentially, under the rate theories accepted by the Commis-

sion itself, a question of the financial position of the roads. This position has never been thoroughly inquired into by the Commission and remains for investigation before any general assumption adverse to higher rates can be successfully defended. It seems likely, therefore, that the Commission will now be forced into a new position on the railroad question. Feeling the pressure from all parts of the country, it has already authorized an investigation of the causes of car shortage.

Closely connected with the question of railway revenues and expenditures is the controversy with respect to express company rates. By the terms of the latest revision of the Interstate Commerce act in 1910, the Commission was authorized to act as a regulator of express companies' charges, these companies being thereby classed as common carriers, and subjected to the same governmental oversight as the other carriers. The Commission did nothing of moment under this legislation until the past summer, when it completed an investigation of express rates and practices. It then issued a tentative order correcting the rates and practices referred to; and, later, set October 9 as the date for beginning hearings on the subject. On that day express company representatives began presenting arguments which ultimately extended over a period of several days, resulting in the filing of a body of argument unprecedented in the history of this controversy. The Commission had, in its tentative order, requested the companies to adopt a particular form of waybill, using different sizes and colors to denote prepayment or non-prepayment of charges, while other devices were resorted to for the purpose of protecting the shipper against overcharges and other impositions on the part of the companies. The latter now report that they have fully complied with the directions of the Commission in these particulars. Another request made by the Commission was that the zone or block system of rates be established. The country was tentatively divided into a large number of blocks, each 50 miles square, and rates were to be established between these different areas upon a system worked out by the Commission. To this element of the plan the companies also show themselves unexpectedly ready to conform. But the final feature in the Commission's plan—the reduction of rates from their present level to one much lower—is strongly resisted by the companies. They have urged the view that such a reduction as is favored by the Commission would mean the necessity of reducing the payments made by them to the railroads under their transportation contracts with the latter. Inasmuch as the express business is a highly important element

in railway revenue, the difficulties of the situation are considerably more extensive than they would be if the express companies alone were affected by the proceedings or than they would be if the current revenues of the roads were not already at so low an ebb as compared with receipts, owing to the systematic work of the Commission in curtailing rates or absolutely refusing rate advances. In the Commission's original tentative order on the subject, it was stated that the companies had but little property apart from their contracts with the railroads. Largely on this was based the suggestion that a much smaller net income would amply suffice for the companies. It was apparently not realized that the first step of the companies would be the curtailment of their payments to the roads, at the earliest moment existing contracts would permit. Realizing this fact, the railways themselves have joined in the arguments before the Commission in order to demonstrate the injurious effects upon themselves that would follow the new decreased rate policy urged in the Commission's express orders.

The express problem has been greatly increased in difficulty by the action of Congress in adopting the parcels-post plan provided for just at the close of the last session. The effect of that plan, as is now well recognized, will be to transfer to the post-office a very considerable part of the business of carrying small packages, while the railroads will lose this element in their income from express companies and will find their postal incomes increased by a corresponding but different amount. Of this situation the argument submitted to the Interstate Commerce Commission in behalf of the companies says in part:

> The business of transporting packages not exceeding eleven pounds in weight represents a very large proportion of the total business of these respondents. While upon a very great part of said transportation business in packages not exceeding eleven pounds the rates proposed by this commission are far below even the rates proposed by the government itself, yet on a very substantial part of said transportation business in parcels not exceeding eleven pounds in weight, especially as to parcels of the smallest weights and for the shortest distances, the rates of the parcel post are lower than the rates proposed by the Commission; therefore, as to the business affected by such lower parcel-post rates, these respondents will presumably lose their business, or a very large part of it, to the parcel post. In view of this loss in volume of business with which respondents are confronted, it is manifest that the loss of gross revenue to these respondents, if they should put into effect the rates proposed by the Commission, would not be limited to the losses of revenue hereinbefore set forth, and which have been based upon respondents retaining their existing volume of business; but would include in addition serious losses in gross revenue due to the loss of business to the parcel post.

Moreover, the radical change in the character of respondents' business which may be brought about by the loss to the parcel post of a great volume of the smaller packages will altogether upset any figures which the Commission may have made as to the apparent average cost per package to respondents of handling their business.

An interesting economic condition due to the heavy business demands upon the banks is again seen in the reduction of reserves and the renewed appeal to the national Treasury for help. Practically since the end of August, there has been very strong interest among bankers and the more foresighted business public with reference to bank condition. It was early admitted that the large crop movement would necessitate the granting of extensive accommodation by the banks with corresponding pressure upon the reserves. During the latter half of September, the decline of reserves in the clearing-house cities had been very severe, and in several places the banks were forced close to the danger line. The consequence was a loud call for government aid. In deference to these demands, Secretary MacVeagh, who has had about $90,000,000 that might at a pinch have been deposited, had ordered an inquiry into the situation by officers of the Treasury Department. The outcome of this inquiry was an unofficial announcement at the opening of October that no Treasury deposits would be made, followed shortly thereafter by an equally unofficial statement of a plan for the limited relief of the national banks. This plan consisted in the placing with the banks of gold or gold funds equal to any amounts, importation of which might be arranged for, such funds to be available as soon as provision should be made for the importations desired. This was practically a revival of the plan followed by Leslie M. Shaw when secretary of the Treasury, whereby the banks were permitted to count as part of their reserves any importations of gold they might engage abroad, so soon as such engagements had been entered into. The only difference between the original Shaw plan and the present undertaking of the Treasury is that the latter takes the government gold from the vaults and places it in the hands of the banks as soon as officials are assured that they are protected by a bona fide arrangement made by the bank in question with a foreign shipper. This revival of the deposit policy in a limited way, with the present slender Treasury balance, and the threatened extension of the policy to the old lengths so far as the government's accumulations will permit, have renewed the discussion of the so-called Aldrich-Vreeland act as a source of relief. The topic has been carefully canvassed between bank and Treasury officers. One important result of the

conferences on the subject has been the renewal of the assertions formerly advanced by bank officers that the Aldrich-Vreeland act was unavailable, and that nothing could be expected from it under any ordinary circumstances. It was formerly supposed that the unavailability of the act would largely disappear in a time of high money rates, but the experience of this autumn when ordinary rates have been unprecedentedly high has added a new limitation to those previously recognized. It is now admitted that not only must rates be high before a resort to the act can be thought of, but that money from abroad must be practically unavailable. The latter condition has not obtained this autumn, since it has been felt by Europeans that every aid must be afforded the United States to facilitate the movement of the crops, while it has been conceded that our abundant harvests gave us the best of claims to the gold resources of Europe, since we could offer the unquestionable security of forthcoming cotton and wheat shipments to protect our finance bills. In spite, therefore, of some obstacles thrown in our way by the Bank of England, there has thus far been little trouble in obtaining the aid of European capital in financing our shipments. In short, the Aldrich-Vreeland act, as bankers have positively stated to the Secretary of the Treasury, is of no use and will never be resorted to until a time when European loans are more costly than the expensive facilities afforded by this anomalous law. The experience of this autumn has thus sufficed to place a wholesome check upon the pessimistic expressions used by some in view of the approaching end of the life of this act (May 28, 1914), while the whole teaching of the autumn experiences of the Treasury and of the banks themselves has been that amendment of the present banking system is more than ever emphatically necessary and affords the only way out of a serious situation. Already capable Treasury officers foresee and predict a commercial panic within two years, if the heavy drains upon bank resources are maintained and the present process of industrial expansion continues at the existing rate. The doubly proven unimportance and unreliability of the Aldrich-Vreeland act emphasizes the fact that the country is today practically without any protective resource that would be open to it in the event of sudden stringency or pressure for immediate accommodation, to sustain a large fabric of credit threatened with disaster owing to some shock to public confidence.

Probably the circumstance which finally determined the Treasury not to make direct deposits with the banks was the fact that just as the question was reaching a critical pitch returns from various parts of the

country showed a singularly high percentage of reserve in the country banks. These returns had already been asked for by the Comptroller as of September 4 and had begun to trickle in during the first half of the month. The showing made by the larger cities, usually announced first, was discouraging and, as already noted, caused some anxiety. But as the returns from the more remote parts of the country began to come in during the latter part of September, a position was revealed which seems surprisingly strong when it is borne in mind that these banks are usually dependent upon the reserve cities for accommodation. It appeared that in some regions the banks were decidedly well off, the rural institutions particularly showing, in many parts of the country, good surplus reserves. This state of things is shown by analysis to be symptomatic of an exceedingly interesting series of developments affecting bank condition. The first of these is the remarkable growth of fluid funds, the result of local savings, in the farming regions. This growth means that the local banks, if not allowed to become involved in long-term operations, are well supplied with quick assets and cash. The accumulation of these savings funds must be accounted the direct result of large crops and high prices which have placed immense resources in the hands of individuals who previously were in debt and dependent upon the local banks instead of being their creditors. Secondly, the banks themselves have been remarkably strengthened by the work of the Comptroller of the Currency, who, in a series of beneficial orders, has repressed many of the dangerous practices that formerly tended seriously to vitiate bank condition from many different standpoints. The most recent work done in this direction by the Comptroller's office has been the checking of "excess loans"—that is, loans to corporations and to officers and directors of banks in excess of the legally permitted maximum. In a statement of results officially made public on October 7, the Comptroller shows that he has now succeeded in reducing this excessive loan evil. Only about 7.1 per cent of the banks, or 526 in all, still report such loans. The importance of the showing thus made is better understood when the results of a recent inquiry into bank failures are recalled. This inquiry was intended to show how far the causes of bank failures could be traced. It appeared that while, as might be expected, bank failures were too closely entangled with many complex economic elements to permit the easy assignment of any one cause for their occurrence, it was true in nearly every serious failure that the "excess loan" evil had been present. In other words, therefore, the repression of excessive loans in a considerable degree implies the termina-

tion of bank failures in a perhaps similar degree. Comptroller Murray's policy seems to have shown that it is possible to get an efficient guaranty of bank deposit by a new route—that of careful and sustained oversight of the conditions under which bank operations are carried on. Mr. Murray, as now announced, finds the evils of the past to be due, not only to excessive loans, but also to the overorganization of small banks, without regard to the banking requirements of the places where they were established. By throwing greater obstacles in the way of the organization and chartering of unnecessary banks, a growth of weak institutions is avoided and at the same time existing institutions are relieved of undue competitive strain due to the necessity of meeting the conditions produced by the presence of too many institutions in a narrow field of business. How far this method of strengthening the national system can be successfully carried is uncertain. Thus far the benefits of the work have been due primarily to the personal efforts of Mr. Murray himself. A successor would very probably need the aid of thorough amendments to the national bank act on its administrative side.

What may prove to be an enterprise of some economic interest and importance is seen in the recent organization of a chamber of commerce of the United States. Such a body was provided for as the result of a conference of business interests held in Washington last spring, and came into existence in an official way during the past August. It has established an official journal to be known as *The Nation's Business*. The plan of the new chamber is that of a co-operative democratic organization consisting of representatives of existing chambers of commerce, boards of trade, and other commercial bodies. The organization expects from its Washington headquarters to keep the business interests of the country advised of existing conditions in public affairs and at the same time to exert an influence upon legislation in behalf of the combined commercial bodies of the country. It is desired to secure a charter from Congress and thus to give the organization a truly national character in form. The idea of this chamber is an old one, largely exploited at various times in the past, notably under the Roosevelt administration, when Secretary of Commerce and Labor Straus strongly urged a similar enterprise. Such a chamber was then organized but found no adequate field for its work, and, after a fitful existence of a year or two, finally disbanded. In spite of this failure, there has seemed to be an opportunity for some such undertaking—as has been admitted in many different quarters. The objections are the difficulty of avoiding con-

flicts of interest between different business organizations and consequent loss of support or lack of harmonious sustaining action, and the further difficulty of developing a real field of large public usefulness from a non-partisan standpoint. With reference to a national charter there is considerable difference of view. The charter is desired as a sort of indorsement by Congress, yet is of course not necessary to the operations of the chamber. On the other hand is noted the danger that the organization (which is now perhaps sufficiently national, having a membership of considerably more than 100 widely distributed trade bodies) might become local and sectional through the falling-away of organizations here and there. In the latter event it might conceivably become little more than the present so-called National Board of Trade, a largely local organization of no vitality. Its national charter would then be undeserved.

President Taft has taken an unprecedented step in directing that the estimates for the next fiscal year of the national government shall be prepared in budget form. ("Letter sent by the President to the Secretary of the Treasury," etc., September 19, officially published October, 1912.) The action is the culmination of a lengthy controversy between the executive and legislative branches of the government. In an order issued to heads of departments July 10, 1912, President Taft directed that the head of each department should "prepare two sets of estimates and summaries of estimates, one in accordance with present practice and one substantially in accordance with" certain new forms of statement which the President himself proposed. This order had been preceded by a message (June 27) in which Mr. Taft had transmitted to Congress a report criticizing the present methods of preparing estimates and had requested action by Congress making provision for a budgetary form of statement. Congress found difficulty in complying with the recommendations of the message, deeming that such a change as was therein requested would necessitate a change in present constitutional modes of legislating on financial questions. These, bad as they may be, are part and parcel of the governmental system of the United States. Consequently, in the legislative, executive, and judicial appropriation bill, passed on August 24, there was included the following provision:

> That until otherwise provided by law, the regular annual estimates of appropriations for expenses of the government of the United States shall be prepared and submitted to Congress, by those charged with the duty of such preparation and submission, only in the form and at the time now required by law, and in no other form and at no other time.

This was intended to avoid the confusion thought to be incident to an executive change of the sort proposed and to assure the submission of the estimates in their usual shape. Immediately after the adjournment at the close of August, the President resumed consideration of the subject, and the official letter of September 19, already referred to, was the result. In this Mr. Taft said:

If the President is to assume any responsibility for either the manner in which business of the government is transacted or results obtained, it is evident that he cannot be limited by Congress to such information as that branch may think sufficient for his purposes. In my opinion, it is entirely competent for the President to submit a budget, and Congress cannot forbid or prevent it. It is quite within his duty and power to have prepared and to submit to Congress and to the country a statement of resources, obligations, revenues, expenditures, and estimates in the form he deems advisable. And this power I propose to exercise. . . . .

Plans which are well adapted to the needs of a highly technical and widely varied public service can only be properly prepared by those who must handle the details of business. Until some provision is made for laying before Congress a well-considered administrative program as a basis for legislative action—one for which the Executive must assume responsibility—the country cannot expect anything more than haphazard and wasteful management of public affairs. Such a method is necessary to the location of responsibility for inefficiency and waste.

A direct issue has thus again been drawn between the President and Congress respecting an important administrative reform whose progress has thereby been placed in jeopardy, notwithstanding that a different way of approaching the subject would doubtless have enlisted the co-operation of congressional committees. The change to a budget form of statement has long been desired and the difficulties in the way have been of a practical nature.